

**STUDY TEAM'S NARRATIVE  
FINAL REPORT**

## GAMBLING STUDY COMMISSION

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# THE COMMISSION'S OVERVIEW AND SUMMARY

Prepared by staff Research Analyst Stephen Maly

**Introduction.** Gambling is a controversial activity in Montana and has been for a long time. For the past hundred years, citizens of the Treasure State have engaged in gambling activities of all kinds--legal or not--for thrills, fun, and the chance of striking it rich. Notwithstanding the popularity of this pursuit, the moral climate in Montana and elsewhere in the U.S. has, off and on, militated against its legitimacy. The first Legislative Assembly of the Montana Territory outlawed a number of games of chance, and the 1889 Constitution forbade gambling. In more recent decades, at least some forms of gambling have become more socially (and hence politically) acceptable. Since 1926, for example, betting on horse races has been allowed, and in 1937 the Legislature legalized table games such as blackjack, pinochle, and cribbage in licensed drug stores, cigar stores, and charitable clubs. In 1945 fraternal, religious, and charitable organizations were authorized to operate slot machines, but 5 years later, the state Supreme Court invalidated the measure and voters in Montana rejected by a large margin a referendum to legalize slot machines.\*

A general overhaul of the state constitution in 1972 resulted in a provision that authorized the Legislature (or the voters, through the initiative process) to legalize gambling.\*\* From that point forward, and especially following landmark court decisions in the 1970s and the passage of laws permitting electronic poker and keno machines in bars in the 1980s, gambling issues of small and large magnitude have been visited upon the Legislature on a perennial basis. In the 1997 Legislative Session, for example, 20 gambling-related measures were introduced, 6 of which were passed.<sup>1</sup> In 1995, 6 of

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\* For a succinct history of gambling's expansion and contraction until 1993, see Duncan Adams' *Gambling: High Stakes Industry* in **Montana Magazine**, Feb. 1995, p. 44.

\*\* Article III, section 9, of the Montana Constitution states that "All forms of gambling, lotteries, and gift enterprises are prohibited unless authorized by acts of the legislature or by the people through initiative or referendum."

16 gambling bills survived. In 1991, a measure to legalize blackjack (or 21) supported by lawmakers from Eastern Montana failed to pass the Legislature. Since then, except for the successful effort to raise the allowable payout for electronic poker from \$100 to \$800 in 1995\*, the vast majority of gambling-related bills have attempted to either constrain gambling activity, mitigate its damaging effects on some people, or resolve issues of effective and efficient regulation. To date almost all of these have failed.

The pattern of recent history reflects in large part conflicts between beneficiaries of the gambling industry (stakeholders) and people and organizations that are morally opposed to gambling. The stakeholders include the owners and operators of gambling establishments; the owners of gambling machines; the employees of bars, taverns, minicasinos, and other businesses associated with gambling, including suppliers of goods and services, all of whom gain financially from legal gambling activity; as well as state and local governments, both of which derive tax revenues from the industry. Vocal and active opponents of gambling include relatively small groups clustered around general concerns for public morality and safety and particular concerns for persons, families, and communities that suffer the results of compulsive gambling and the damaging behavior that sometimes accompanies it. Sandwiched between gambling enthusiasts and detractors are state legislators trying to make policy decisions and state regulators with the multifaceted task of administering an effective system of licensure and taxation.

Notably absent from the legislative arena is any large-scale agglomeration of Montana citizens who are also, as the study results show, the overwhelming majority of gambling consumers in the state. The study did not attempt to measure the tastes or desires of Montana gamblers, and no one was asked why they play video gambling machines, purchase lottery tickets, or place bets at the card table or race track. Governor Marc Racicot's pragmatic position on gambling, articulated at a symposium at the Burton K. Wheeler

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\* House Bill No. 527 (Chapter 227, Laws of 1995).

Center in Bozeman in 1997, may or may not reflect the general tenor of citizen attitudes toward gambling, but it signifies a stance that is neither strident nor neutral:

*I have never been an advocate of commercial gambling, and I remain opposed to its expansion in Montana . . . . I also understand that gambling has a positive side--it reflects our natural urge to take risks and escape to the world of make-believe. It fulfills the play impulse that human beings have, and for many, it is a means of social interaction and a way to simply have fun. It is also, of course, an industry that employs many people and pays many taxes.<sup>2</sup>*

**Genesis and Purpose of the Study.** Much of the ongoing debate about gambling has been conducted on the basis of well-reasoned rhetoric on all sides, seasoned with illustrative anecdotal evidence about the social costs and the economic benefits of gambling. Without disregarding the general relevance and the interesting results of scientific studies undertaken in other parts of the country (and, increasingly, around the world), none of them has been sufficiently useful to replace similarly sound analysis done in and for Montana. Our “galaxy” is unique within the gambling universe, and the constellation of forces at play cannot be properly mapped and traced without an examination that is thorough, rigorous, and focused.

House Bill No. 615 (Chapter 494, Laws of 1997) was passed in the eleventh hour of the 55th Legislative Session and represents a compromise between pro- and anti-gambling interests. The bill mandated a comprehensive study of the social and economic impacts of gambling in Montana and established a five-member, governor-appointed Gambling Study Commission to obtain such a study and examine its results. The Legislature appropriated \$100,000 from the state lottery’s unclaimed prizes account to administer and pay for the study.

HB 615 contained a list of items of particular interest to the Legislature;\* however, the language in the bill is permissive, allowing both for a reduced or an expanded search for knowledge. The Commission's Request for Proposals (RFP) included this general statement about the purpose of the study:

*The Montana Legislature, the Governor, tribal leaders, dozens of governmental agencies and nongovernmental organizations, Montana citizens at large: all have a compelling interest in obtaining accurate measures of the net benefits and total costs of legalized gambling, and in attaining a better understanding of the role gambling plays in the process of economic development. The Commission members acknowledge the difficulties inherent in combining and quantifying the economic and social aspects of gambling, and doing so within a limited time frame and a fixed monetary appropriation. Nevertheless, the Commission's overall goal is to obtain a study of gambling in Montana that is not only accurate and comprehensive, but also conducive to a holistic interpretation that will help policy makers make well-informed decisions.*

**Processes and Procedures.** Governor Racicot announced his choice of Commission members on September 3, 1997. In accordance with selection criteria specified in HB 615, the appointees were Ms. Phoebe Williams (a business owner with no economic interest in the gambling industry), Ms. Barbara Nemecek (who holds a doctorate in a social science discipline pertinent to socioeconomic analysis), Professor Rodney Brod (representing the Department of Sociology at the University of Montana), Professor Shannon Taylor (from the School of Business at Montana State University), and Dr. Robert Caldwell (a mental health professional).\*\*

To fulfill HB 615's requirement that the Commission "request" and "fund" a detailed study, a formal RFP was issued on October 14, 1997, to approximately 30 parties who identified themselves as interested in preparing a bid. Six proposals were submitted by the December 8 due date. On

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\* See text of bill at Appendix 1.

\*\* Appendix 2 has more complete biographical information on the Commission members.

December 11, the Commission met at the State Capitol in Helena to evaluate the proposals and score them in accordance with the criteria set forth in the RFP. Points were awarded in the following scoring categories: methodology; organizational makeup and access to resources; experience (including work with/for legislative bodies); staff qualifications; the relevant characteristics of former clients and the quality of work samples; and the fee proposal.<sup>3</sup>

Four of the proposals (one each from research teams at the University of Idaho, the University of South Dakota, the University of Illinois, and the Economics Resource Group in Cambridge, Massachusetts) were judged to be incomplete in one or several of these categories. The remaining two proposals, from Hunter Interests, Inc., in Annapolis, Maryland and from a joint venture including the Montana Bureau of Business and Economic Research at the University of Montana (MBBER) and Gemini Research in Northampton, Massachusetts, achieved equal total scores. This situation triggered an additional, final stage of competition, wherein both the Maryland and Montana study teams made detailed oral presentations to the Commission on December 18. The contract was awarded that day to the group headed by Dr. Paul Polzin, Director of the MBBER.

The Commission subsequently held meetings in Missoula on January 6, February 24, April 17, and July 20, primarily to get progress reports from the study team. Public input was welcomed on each occasion. Both the Commission members and the contract team received constructive suggestions from members of the industry (owners and operators as well as unionized workers), groups opposed to gambling, and the state lottery. In addition, in February the Commission invited Dr. Phil Brooks, the State Economist at the Department of Labor and Industry, to make a presentation entitled *The Strengths and Pitfalls of Economic Multipliers*, and also heard Missoula County Attorney Dusty Deshamps discuss the potential for additional research on the incidence of gambling-related crime utilizing an informal statewide or regional survey of probation and parole officers.

The Commission and the study team made several important modifications to the original proposal after reconsidering the efficiency and efficacy of various



data-gathering techniques. For example, the Commissioners wanted to know more about the structure of the industry, especially with regard to the concentration of ownership and to out-of-state ownership of gambling vendor (route operator) licenses and thereby the flow of earnings or revenue “leakage” to external jurisdictions. Another important change was made in the pursuit of information on problem and pathological gambling, resulting in an innovative approach to collecting and compiling information from medical records at treatment centers and volunteered by self-selected members of Gamblers Anonymous.\*

Throughout the study period, the Commissioners also relied on their own combined expertise in social science, business, and mental health. Staff provided research assistance and printed materials gathered from diverse sources, including studies undertaken in other states, statistical information from the Montana Department of Justice’s Gambling Control Division, and publications from the Institute for the Study of Gambling and Commercial Gaming in Nevada.

**Caveat.** During the course of the study period, members of the Commission repeatedly articulated their goals in the succinct terms of cost-benefit analysis. What is gambling worth to Montana? What does it cost the state? If the study could produce good, solid answers to both questions, the Commission would be in a position to declare the “net value” of gambling in the Treasure State.

Unfortunately, and notwithstanding sterling effort within a limited budget,\*\* some of the important questions that underlie the overarching ones above are not amenable to scientifically valid research methods. Social cost accounting is a fledgling science. It is difficult to quantify and aggregate what are often intensely personal and inherently private stories about financial difficulties, family dysfunctions, and compulsive behavior. Noted gambling expert William

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\* See Appendix D in the Technical Appendix for a more complete description of this technique.

\*\* Less comprehensive studies have cost \$500,000 and more in other states; the National Gambling Impact Study Commission has a budget of \$5 million.

Eadington comments frequently on this conundrum. Here's a sampling of his views:

*One of the fundamental realities regarding economic and social impacts associated with gambling is that economic impacts, which tend to be positive, are quantifiable, tangible, and measurable; whereas social impacts, which tend to be negative, are qualitative, elusive, and very difficult to measure.<sup>4</sup>*

*Problem gambling poses challenges of identification, definition and measurement. It is largely an invisible activity, especially in comparison to alcoholism or drug addiction . . . . Thus, measuring the prevalence of problem or pathological gambling, and associating costs to individuals or society from such behavior, poses nearly insurmountable methodological difficulties to investigators.<sup>5</sup>*

With this highly substantive procedural hurdle very much in mind, the Commission members did take a look at a number of studies that at least purport to have achieved solid calculations of problem gambling based on methodologically sound measures and techniques.<sup>6</sup> More generally, the Commission and staff reviewed reports of gambling studies from a number of other states, including North and South Dakota, Wisconsin, Minnesota, Oregon, Illinois, Louisiana, Connecticut, Florida, and California. Some addressed economic considerations solely; others focused exclusively on problem gambling and other social cost dimensions. Relatively few attempted as comprehensive an analysis as requested in HB 615. The main conclusion that we can draw from this effort is that gambling is a diverse enough activity and industry in the U.S. and elsewhere to render scientifically valid comparisons iffy at best.

Moreover, even fairly routine measures of economic impact are expensive and susceptible to divergent interpretations. There is no consensus on how best to measure the entertainment value of gambling, let alone the multiplier effects of investments and consumer expenditures in the gambling industry. As Dr. Brooks pointed out, multipliers are imprecise, they tend to be overstated, and it is not uncommon for groups with a stake in the sector(s) undergoing analysis to "shop" for an economist who is prepared to use a model that will produce

the desired result.<sup>7</sup> One particularly serious obstacle to systematic assessment of economic impacts results from Standardized Industrial Classification categories (“SIC codes”) that do not distinguish gambling from other types of entertainment and recreation. This effectively prevents the application of standard input-output models that are used to measure the direct and induced effects of any primary activity, since without extensive and customized data crunching, there is no way to separate gambling-related expenditures from other types of spending within the same statistical category.<sup>8</sup>

The solidity of the Commission’s “bottom line” conclusion is ultimately contingent on the quality of the contractor’s research, which in turn depends to a large extent on the quality and availability of quantitative information. There is a shortage of reliable data on the gambling industry in Montana from which to draw policy-relevant conclusions and upon which to base statistical measures such as those requested in HB 615.

This is a general warning to the reader; more specific caveats are spelled out in the body of the Final Report narrative and in the methodology sections of the Technical Report.

**Selective Summary of Findings.** The Final Report includes an Executive Summary and, of course, a detailed accounting of what the contract team found and how they conducted the study. The following conclusions are the Commission members’ own and are highlighted here to provide a rational basis for the policy implications and legislative options outlined below.

- ▶ In 1997, 78% of Montanans gambled in some form (including raffles as well as casino games), up from 74% in 1992. They wagered\* \$239 million, 94% of it on video poker and keno machines.
- ▶ Montana gamblers are equally likely to be male or female. Most

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\* The money remaining at gambling establishments after winnings are paid out.

are 18-29 or 40-49 years old, married, high school graduates, employed, earning above-average incomes.

- ▶ Nonresidents spent an estimated \$10 million on gambling in 1997, about 4.5% of all money wagered.
- ▶ About 3.6% of all Montanans are probable problem or pathological gamblers, up from 2.2% in 1992. For American Indians in Montana, the current rate is 8.5%.
- ▶ Problem and pathological gamblers wager a disproportionate amount of the total: 37% of video gambling machine revenue, 29% of live keno, 18% of scratch tickets, 17% of other lottery games, and 13% of live bingo.
- ▶ The 1,740 establishments that offer gambling reported gross revenue for 1997 of \$923 million. Gambling's share of the gross ranges from 62% for casinos with 20 machines to 5% for establishments with 1 to 5 machines.
- ▶ 93% of gambling establishments hold alcohol licenses. Under state law, only residents may obtain a license to sell alcoholic beverages, so most gambling establishments are owned and operated by Montana citizens. Vendors, also known as route operators, provide about 66% of the video gambling machines (VGMs) in Montana. Four vendors are owned completely by nonresidents (one of whom has over 800 VGMs in the state); an additional seven vendors are partially owned by nonresidents.
- ▶ Gambling establishments spent a total of \$795 million in 1997 to buy goods for resale, as well as for payroll, video gambling machine rent, taxes, advertising, interest, and other expenses. The balance of \$128 million (the difference between gross revenue and expenditures) yields an average "net margin" of 13.8%.

- ▶ Gambling establishments of all types employ in total approximately 16,300 workers (4.6% of the state labor force), about 10,000 of whom work face-to-face with gamblers. On average, each worker puts in 30 hours per week and makes \$9,600 per year (not counting benefits and tips).
- ▶ In fiscal year 1997, gambling paid a total of \$47.3 million in direct taxes: \$24.3 million to local governments, \$17.9 million to the state's general fund (about 1.8% of total general fund revenue), and \$5.1 million to regulatory agencies.
- ▶ Cities and counties have grown to rely on gambling tax revenue, which accounts for an average of 13.9% of cities' funds and 1.5% of counties' funds. Some local governments are far more dependent: Kalispell, Hamilton, Libby, Bridger, and Superior get from 23% to 39% of their revenue from gambling taxes; Anaconda/Deer Lodge, Butte/Silver Bow, Lincoln, and Mineral counties receive from 4% to 10%.
- ▶ Increased gambling is statistically correlated with increases in six types of crime: burglary, larceny/theft, robbery, vandalism, DUIs, and weapons offenses. For each additional \$1 million in gambling, about 172 more of those crimes will occur. There is no statistical correlation between increased gambling and increases in embezzlement, check fraud, or forgery.
- ▶ Problem and pathological gamblers informally admit a very high incidence of illegal acts. Some, like check fraud, directly support their gambling.
- ▶ Problem and pathological gamblers informally report very high rates of divorce, bankruptcy, credit problems, domestic violence, drug and alcohol dependence, depression, and suicide attempts.

- ▶ An estimated 3% to 6% of problem and pathological gamblers will eventually seek treatment. Projected costs are \$9,485 per person for inpatient treatment and \$1,600 per person for outpatient care.

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AT THIS JUNCTURE, THE READER MAY PREFER TO SKIP AHEAD TO THE STUDY TEAM'S NARRATIVE **FINAL REPORT** BEFORE TAKING IN THE COMMISSION'S CONSIDERATION OF SOME OF THE IMPLICATIONS FOR PUBLIC POLICY CONTAINED IN THE REPORT'S FINDINGS.

**Policy Implications.** HB 615 imposes a duty on the Commission to evaluate and publicize the study results. The bill also permits the Commission to recommend legislation, but does not require such action. Do any or all of the findings warrant changes in state policy or specific legislative action? Are the results surprising? Do we know a lot more about the social and economic impacts of gambling than we did before the study was commissioned? As an appointed body with no direct stake in the outcome of this endeavor, we cannot answer these questions with confidence, let alone certainty.

Some of the findings are counterintuitive. For example, many people associate gambling activity with crime. It is a common assumption--and not just in Montana, but across the country and beyond the United States, we surmise--that casino-style gambling is tainted by vestiges of organized crime or is otherwise a cause for a variety of financial woes and domestic violence. A number of recent studies indicate that the criminal element has been largely eradicated from gambling operations as a result of regulation and the evolution of the industry, which is now dominated nationally by publicly traded corporations subject to the same type of scrutiny as other types of businesses. Our study did not examine this dimension, but it does show that the connections between criminal activity and the availability of gambling are significant in only a small number of types of crimes.<sup>9</sup>

Another common assumption, that popular forms of gambling are primarily an activity of persons with less-than-average education and income levels, was not borne out in Montana. Moreover, studies elsewhere have produced similar results.<sup>10</sup>

Some of the findings are suggestive. If indeed over a third of the expenditures on video gambling machines and nearly a quarter of those on the lottery are made by citizens with a gambling problem, and considering that local governments rely quite significantly on the tax revenue collected as a consequence of their play, then the resulting situation might be characterized as predatory, even by Montanans who are supportive of or indifferent toward gambling. This negative conclusion is especially likely when there are no institutionalized programs provided by the state for the relief or rehabilitation of problem and pathological gamblers.

The study shows an increase (since 1992) in the percentage of problem and pathological gamblers in Montana. It does not explain why. One of the measuring tools used by our study team, the Diagnostic and Statistical Manual for Mental Disorders, specifically notes that greater exposure to gambling can trigger the onset of pathological behavior.<sup>11</sup> Credible studies in other states--Minnesota, Iowa, Louisiana--assert a causal link between the availability of gambling opportunities and the number of problem gamblers. Credible studies in other states--South Dakota, Oregon, Connecticut--show no such correlation. As Rachel Volberg explains,

*There is clear evidence that prevalence rates of problem gambling have risen significantly over time. However, the nature of the links between the availability of specific types of gambling and the prevalence of gambling problems in the general population is not well understood. A further complication is the differential availability of services for problem gamblers in jurisdictions where new types of gambling have recently been legalized.*<sup>12</sup>

Has the number and distribution of opportunities to gamble grown since 1992? The Gambling Control Division's most recently published statistics show that in 1992 a total of 14,365 video gambling machine permits were

issued, compared with 18,587 in 1996.\* In 1997 there were 19,487. Clearly, the odds of encountering a VGM in Montana have improved in recent years, but that fact alone does not establish a cause and effect relationship. It is interesting to note, in any event, that there were 300 fewer machine permits as of June 1998 than a year earlier, while the tax revenue generated was up by a projected 9.3%. Apparently, fewer machines are being played more intensively, but we don't know by whom.<sup>13</sup>

Some of the findings are simply incomplete. For example, a determination of the percentage of video gambling machines owned by just two route operators (one of whom resides in Montana, the other in a different state) could not be made because the Gambling Control Division declined requests to provide the information on the basis of its reading of a nondisclosure statute (see 23-5-116, MCA). Thus the concentration of ownership of VGMs cannot be measured in detail unless someone with legal standing tests the constitutionality of the privacy protection provision or the Legislature simply changes the law to explicitly allow the Division to release data to public entities such as the Gambling Study Commission.<sup>14</sup>

Another missing element is an accurate or verifiable positive multiplier effect of investments and expenditures by gambling businesses, and conversely any treatment of the substitution (or displacement) effects that gambling enterprises may have on local economies. As noted above, the application of an accurate multiplier is tricky. With regard to substitution, critics such as Robert Goodman and Earl Grinols assert that gambling "cannibalizes" local restaurants and entertainment centers as well as diverting dollars from all sorts of other retail shops and service sector enterprises.<sup>15</sup> While the structure of the gambling industry in Montana would suggest that these effects do occur, in some degree, this aspect of economic analysis fell outside the practicable scope of the study.

For purposes of general discussion, the Commission acknowledges the recurrent controversies that surround policymakers in their attempt to make

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\*The total includes video poker, keno, and bingo machines.



decisions about the structure, scale, and scope of legalized gambling in relation to its economic and social consequences. As state law makes clear, gambling has the status of privilege rather than right in Montana.\* Policy decisions in this arena, where a formerly prohibited activity now enjoys a privileged status that is unlike most other market commodities,<sup>16</sup> are inherently double-edged. The Legislature has the legal authority to constrain or even outlaw gambling, but not without first considering and acting upon its cumulative obligations to stakeholders after more than a decade of vesting in them privileges that are tantamount to property rights. Moreover, the Legislature must take into account the financial needs and expectations of local governments and the broader ramifications of any policy-induced decline in gambling activity and consequent revenue.

This study provides an opportunity to reflect on the fact that Montana is an anomaly in some respects and consequently faces policy challenges that are not common across the states. Video poker machines were made legal in Montana in 1985. The primary rationale for this decision was to breathe new life into rural and urban bars and taverns whose financial picture was bad and getting worse, partly as a consequence of a lingering recession. The travails of the tavern industry were viewed as a barometer of economic conditions, since such establishments were (and perhaps always have been) a vital component of local economies and community life. The loss of federal revenue sharing under the Reagan Administration added impetus to government's interest in gambling as a revenue source.

Unlike states that have authorized urban casinos and river boat/dockside gambling in recent years, Montana has treated gambling not so much as a tool of economic expansion but as a means of economic sustenance. Outside of a few tribal facilities, such as the Kwatuknuk and Big Horn casinos on the Flathead and Crow Reservations, respectively, there are no genuine destination resorts in Montana that rely heavily on gambling to attract customers. The state does not promote itself as a place to gamble; the

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\*See 23-5-110(2), MCA.

industry has not been considered by state and local officials (as distinct from tribal leaders) as an engine of growth and diversification.

The property tax restrictions on local governments that were imposed through a voter's initiative in 1986 offer another case in point. This measure--Initiative No. 105--was passed without regard to gambling, but it has in effect increased significantly the degree to which cities and counties rely on gambling revenue to sustain basic operations of government. While government is often regarded as the "silent partner" in legalized gambling across the country, local government officials and advocates in Montana have been extraordinarily vocal and candid about the importance of gambling revenue. As the Executive Director of the Montana League of Cities and Towns put it in 1995, "Gambling Revenue is the difference between a balanced budget and a catastrophe for every city and town in the state of Montana."<sup>17</sup>

The Commission further recognizes that while Montana may be a unique economic and social environment in some respects, this study is one of many across the country and crosscurrents of interest, opinion, and inquiry in the gambling arena outside this state affect the way gambling is conducted and perceived inside its borders. National and regional trends in gambling policy do have bearing and influence here.<sup>18</sup> For example, recent analysis of such trends indicates that the increasing spread of legalized gambling across North America is characterized by (1) the declining payoff from new forms of gambling for private firms, for economic development initiatives, and for most state and local governments, and (2) increased pressure on state revenue and private sector earnings derived from older forms of gambling such as parimutuel horse racing and traditional lotteries.<sup>19</sup>

In other words, market forces are at work. An increased supply of new gambling opportunities is reducing the demand for older types, and the spread of legalized gambling across the continent is also reducing the need for anyone to travel across state and provincial lines to partake of this form of entertainment. As a recent report summarizes:

*In the early days of gambling legalization, decisions to legalize casinos and to establish lotteries drew substantial business from non-residents. As gambling spread, the ability of states to offer unique experiences has dropped. So larger and larger portions of customers are local residents.*<sup>20</sup>

The economic consequences of localized gambling are less alluring than those associated with or resulting from successful campaigns to entice outsiders to spend their disposable income in Montana establishments. University of Nevada professor William N. Thompson and other gambling specialists repeatedly assert that the local economy does not incur net benefits if only local people are gambling.<sup>21</sup> As a California study puts it, "Building and running a gambling facility doesn't create wealth, it merely transfers it. The benefit for a region is if the transfers are from outside the region."<sup>22</sup> Our study's finding that nonresidents account for less than 5% of the money wagered in Montana indicates that gambling is redistributing income in the state rather than adding much to it.

This is not to say that gambling cannot be considered a means of boosting the state's economy. An expansion of gambling would likely increase the industry's economic impacts--by "growing" jobs and tax revenue, for example--and it would also likely add to the downside social effects, however difficult these may be to quantify with any exactitude. In any event, it is worthwhile noting William Eadington's studied observation that a jurisdiction with widely dispersed gambling opportunities (such as Montana) rather than gambling at destination resorts or in large urban casinos has the least to gain in terms of genuine economic development and the weakest set of policy tools to address gambling problems.<sup>23</sup>

In sum, the choices available to policymakers are different in a "maturing" market than in a fresh one, but it is still exceedingly difficult to get an accurate reading of just where Montana is or can go in the gambling universe.

In partial fulfillment of the evaluation and publicity obligation under HB 615, the Commission scheduled a public hearing on the study results in the State

Capitol Building in Helena on September 30, 1998. Legislators, the Governor, the media, and other interested persons were invited to attend the hearing, which consisted of a joint presentation of the study findings and a moderated discussion of the resulting opportunities and problems that might be addressed by changes in state law and policy. In lieu of explicit legislative recommendations, the Commissioners opted to invite all interested parties to review the study and to analyze independently any segment or the total sum of the data compiled during the study period.

**Legislative Options.** Without venturing into advocacy or resistance to any specific policy option, the Commission observes there are a number of possibilities, such as the following:

- ◆ The Legislature could decide to do nothing (or nothing much) at all about gambling. It could simply leave things as they are, acknowledging the fact that the status quo regime for gambling does have economic and social impacts, some of which are obvious, some of which are not. Gambling and gambling taxes have been institutionalized in Montana, as in most states.
- ◆ The Legislature could recommend (by resolution) or mandate (through legislation) the systematic gathering and compiling of policy-relevant data on gambling. This would aid future attempts to conduct a thorough economic and social impact analysis; it would also cost money and might require changes in statute concerning information disclosure by the Gambling Control Division.
- ◆ To achieve potentially improved economic benefits and reduced social costs, the Legislature could allow new games, such as blackjack (a.k.a. 21) at destination resorts, disallow existing games--video poker--to offer a radical example, or change the allowable mix of games on certain premises, such as the placement of video poker and/or keno at racetracks. Iowa, Delaware, West Virginia, Rhode Island, Louisiana, and New Mexico now permit slot machines or other electronic gaming

devices at horse racing facilities.<sup>24</sup> Another option would be to allow riverboat/dockside gambling on the Missouri, Yellowstone, or Clark Fork Rivers. Iowa, Illinois, Louisiana, Missouri, Mississippi, and Indiana have all gone this route since 1989, with mixed results.\* Each of these measures would bring different effects, which in all cases would be difficult to ascertain in advance with any precision.

- ◆ The Legislature could reduce the availability of gambling opportunities directly by placing tighter limits on the number of video gambling machines on any licensed premise or by restricting the types of gambling allowed in certain types of establishments or could achieve a similar goal indirectly by restricting consumers' access to cash through prohibiting the placement of automated teller machines in close proximity to gambling activity.\*\*
- ◆ The Legislature could change the tax rates on gambling activities in Montana. As in any instance of tax policy, raising rates would have divergent effects. It could increase revenue accruing to state and local government, decrease the return on investment to machine and establishment owners, increase the level of dependence that governments have already on a particular source of revenue, or result in income and/or job losses in an important retail sector of the economy. Higher taxes might deter entrepreneurs from entering the gambling arena and thus either increase or maintain the current level of concentration of ownership or lead to a decrease in overall gambling activity or both.<sup>25</sup>

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\*The rationale for permitting riverboat casinos--and at first allowing gambling to take place only when the boats were afloat and not tied to any dock--was that the social damages that might result from the enterprise would be mitigated. William Eadington and others observe that there is no desire on the part of riverboat casino customers and operators to sail and that the primary results of restrictions are inconvenienced gamblers and higher costs for casino operations.

\*\* A 1997 bill to achieve this goal, House Bill No. 349, was tabled in committee and failed an attempt to remove it to the House floor for second reading.

- ◆ To address problem and/or pathological gambling, the Legislature could mandate state (i.e., tax-supported) funding for treatment.\* It could require that problem and pathological gambling be included as a condition that would meet the qualifications of the state's mental health programs. It could compel licensees and/or the state lottery to pay for treatment and rehabilitation programs. It could encourage or provide incentives for an interdiction program to minimize the opportunity for problem gamblers to frequent public establishments. (This might have the likely but unintended consequence of driving problem gamblers underground, into noncomplying establishments, or quite literally, into their basements.)
  
- ◆ The Legislature could alter the parameters of jurisdictional power. Under current state law (see 23-5-171, MCA), a local government has the ability to restrict gambling within its borders. No Montana community has yet made use of these provisions to prohibit gambling altogether (generally or of a specific type) within their legal boundaries. Legislation to strengthen local governments' "hand" could be recommended as a means of providing citizens more choice in the matter. This could lead to litigation over constitutional takings issues, unless the new measures provided a fair means of dealing current operators out of the game.
  
- ◆ The Legislature could put the state lottery out of business.\*\* A less draconian measure would be to restrict its advertising, either by placing limits on allowable expenditures and/or requiring certain disclosures that enhance the consumers' ability to make an informed choice. (Six states place statutory spending limits on advertising, while 14 impose conditions on the content of advertisements.)<sup>26</sup> Conversely, the Legislature could allocate more money to the lottery

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\* Senate Bill No. 208, a bill to establish a pathological gambling treatment program and a problem gambling prevention program, died in the Appropriations Committee in the 1997 Legislative Session.

\*\* A 1997 bill to abolish the state lottery, Senate Bill No. 268, died on second reading in the Senate. A subsequent initiative campaign to place the lottery on the 1998 ballot failed by a wide margin to garner a sufficient number of signatures.

to promote public participation and to bring new games into the picture. Another way to tinker with the lottery--and with gambling taxes as well--is to redistribute or re-earmark the revenue for some specific educational or other social purpose.\* A number of other states, for example, require lottery earnings to go toward K-12 education.<sup>27</sup>

This is by no means an exhaustive list of possibilities, and none of these general considerations is unique to Montana's situation or policy horizon; indeed, most are probably familiar to Montana lawmakers already, since the legislative history of the past two decades is marked by numerous attempts to change the rules of the game in gambling. It is worth repeating here what was noted above in the introductory section: Many attempts have been made to alter the "landscape" of gambling in Montana since video gambling machines were legalized in 1985. Very few have succeeded. In the 1990s, critics and outright opponents of legalized gambling, with some support from the gambling industry, have tried to win state funding for problem gambling programs, but to no avail. Attempts to increase local authority by allowing greater citizen involvement in gambling licensing procedures, impose certain distance restrictions for casinos, make it a criminal offense for minors to enter or loiter in gambling establishments, and raise the legal gambling age (by a constitutional amendment) from 18 to 21 have also failed, for a variety of reasons, to survive the legislative process. In the meantime, excepting the video poker payout increase in 1995 (after failing in the 1993 Legislative Session), industry participants and their advocates have not brought proposals to further expand gambling.\*\*

The Commission also recognizes that some of the issues raised in HB 615 and addressed in the study fall within the purview of the Gaming Advisory Council (GAC). The Council oversees regulatory issues and as such has an ongoing

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\* The 1995 Legislature severed the link between lottery revenue and school funding in Montana.

\*\* In 1995, with support from large segments of the gambling industry, the Legislature passed House Bill No. 537 (Chapter 480, Laws of 1995), which prevented the "stacking" of gambling licenses to achieve greater than the maximum 20 allowed per licensed establishment.

interest in the efficiency and effectiveness of the means employed by the Justice Department's Gambling Control Division and licensees to assess and collect fees and taxes. In this vein, the GAC may again recommend legislation to establish automated reporting systems to obtain tax data from video gambling machines (often referred to as the "dial-up" system because it utilizes phone lines).

The GAC continues to demonstrate concern about problem gambling and more particularly about what can be done to mitigate the impacts. For example, the Council has supported a toll-free help line (1-888-900-9979) funded and administered by the regulated gambling community. The Council also continues to consider legislative proposals to establish a state treatment/prevention program for problem and pathological gamblers. The Council may also recommend or support actions taken to regulate if not outlaw Internet gambling in Montana, a new venue for gamblers that raises concern among some industry representatives that unregulated competitors may gain a substantial share of the market for consumers' dollars and, more importantly, damage the industry as a whole by acting unscrupulously or illegally. Internet gambling is also a cause for concern among groups opposed to gambling, especially as it relates to the association of fast-paced video signals with mental health disorders.<sup>28</sup>

Finally, the study process and the results set forth in the study team's report prompted a number of questions that were not asked explicitly in the RFP and that were only partially implied in the itemized issues in HB 615. Among such *ex post facto* queries are the following:

□ What is the economic and social rationale for linking liquor establishment licenses to gambling licenses? Does the combination create, in effect, an industry sheltered from rigorous competition? Does it have the contradictory consequence of limiting the availability of gambling (perhaps reducing the net potential cost of problem gambling) and, at the same time, making an activity that is addictive to some people ubiquitous in the very places where other addictive substances (alcohol and tobacco) are routinely available? What would be the ramifications of separating the two types of licensure or, more



radically, of restricting gambling to places of business that DO NOT sell alcoholic beverages, as is the case in some jurisdictions in North America and elsewhere in the world?

❑ What sort of treatment is available for persons who fit the problem and pathological gambling profile? How much does it cost? Is it effective, and for how long? Who should pay for it? Should state-supported mental health managed care programs include treatment for gambling addiction? Should state-regulated health insurance policies provide coverage for this affliction? If insurers are required to reimburse customers for the treatment of gambling illnesses, does the state need to provide for the licensure of treatment providers?

❑ Gambling is spread far and wide across the Treasure State. There are scores of video gambling machines in relatively large, casino-style eating and drinking establishments located on or near major highways; the same machines (fewer in number) are found in small taverns in relatively remote and seldom visited spots on the map. What would be the costs and benefits of a state policy that encouraged or perhaps compelled the consolidation of gambling activities into a few select locations (non-Indian and Indian) for the purpose of boosting the economic impacts of tourist gambling and reducing the availability of gambling to persons with gambling problems?

These are a few of the areas that this study did not explore, but that probably warrant further research before anyone could claim that the state has obtained a truly “comprehensive” accounting of the socioeconomic effects of gambling in Montana. The study in hand provides an unprecedentedly detailed picture of the status quo situation in Montana, but it does not (and was not intended to) show how things would or could be better or worse under different, prospective scenarios.

**Acknowledgments.** The study effort benefited from the cooperation of the Montana Tavern Association (including *The Tavern Times*), the Gaming Industry Association, the Montana Coin Machine Operators Association, the Montana Independent Machine Operators Association, and the main

antigambling organization in the state, called Don't Gamble with the Future. Melissa Case from the Hotel and Restaurant Employees Union provided the Commission with a paper concerning job quality in the gaming industry. None of these organizations exercised undue influence on the contract team, as all substantive communications between the contractors and interested parties were reported to the Commission via the staff. The Commission also appreciates the informational assistance that it and the contract team received from staff at the Montana Lottery and the Gambling Control Division of the Department of Justice. The cooperation of Rimrock Foundation in Billings and the Rocky Mountain Treatment Center in Great Falls and from members of several chapters of Gamblers Anonymous was also essential.

**Select Source Materials.** Specific references are listed in the footnotes and endnotes that follow this section. The books and articles listed below were also helpful to the Commission and staff during the study period and are recommended for their clarity and comprehensiveness.

## BOOKS

William R. Eadington and Judy A. Cornelius, editors, **Gambling: Public Policies and the Social Sciences**, Reno: Institute for the Study of Gambling and Commercial Gaming, 1997.

William N. Thompson, **Legalized Gambling**, Santa Barbara: ABC-CLIO, 1994.  
Roger Dunstan, **Gambling in California**, Sacramento: Research Bureau, California State Library, 1997.

Harold Vogel, **Entertainment Industry Economics: A Guide for Financial Analysis**, third edition, New York: Cambridge University Press, 1994.

Robert Goodman, **The Luck Business: The Devastating Consequences and Broken Promises of America's Gambling Explosion**, New York: The Free Press, 1995.

John Dombrink and William N. Thompson, **The Last Resort: Success and Failure in Campaigns for Casinos**, Reno and Las Vegas: University of Nevada Press, 1990.

## REPORTS

Rachel Volberg, *Gambling and Problem Gambling in Colorado*: Report to the Colorado Department of Revenue, August 28, 1997.

William N. Thompson, Ricardo Gazel, and Dan Rickman, *The Social Costs of Gambling in Wisconsin*, Thiensville, WI: Wisconsin Policy Research Institute, Inc., July 1996.

WEFA Group, *A Study Concerning the Effects of Legalized Gambling on the Citizens of the State of Connecticut*, prepared for the Connecticut Department of Revenue Services, 1997.

New Jersey Casino Control Commission, *Casino Gambling in New Jersey: A Report to the National Gambling Impact Study Commission*, January 1998.

Hunter Interests, Inc., *Market Potential and Economic Impacts of Casino Gaming in Baltimore, Maryland*, prepared for the Greater Baltimore Committee, Annapolis, May 1996.

Franke Wilmer, *Indian Gaming: Players and Stakes*, Bozeman: Local Government Center, Montana State University, 1994.

United States Government Accounting Office, *Tax Policy: A Profile of the Indian Gaming Industry*, GAO/GGD-97-91, May 1997.

United States Government Accounting Office, *Casino Gaming Regulation: Roles of Five States and the National Indian Gaming Commission*, GAO/RCED-98-97, May 1998.

The Report of the Independent Study Committee on Gambling in Oregon, March 12, 1997.

Minnesota Planning, *High Stakes: Gambling in Minnesota*, 1992 and *Minnesota Gambling*, 1993.

Arthur Andersen Inc., *Economic Impacts of Casino Gaming in the United States*, Volume 1: Macro Study (December 1996), and Volume 2: Micro Study (May 1997), prepared for the American Gaming Association.

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## ENDNOTES

1. Chapter 13, Laws of 1997, established a licensure requirement for sports tab sellers; Chapter 252 revised the prohibition of credit gambling; Chapter 354 allowed for the regulated sale and importation (for maintenance, manufacturing, and repair) of gambling devices not otherwise authorized for use in Montana; Chapter 465 prohibited holders of a new type of beer and wine license from also obtaining gambling licences; Chapter 494 established the Gambling Study Commission.
2. Governor Racicot's September 4, 1997, speech at the Wheeler Center on the Montana State University-Bozeman campus can be found in its entirety at <http://www.mt.governor>.
3. While conflict of interest considerations were not part of the scoring criteria, they were an important part of the RFP and remained significant for the duration of the study contract. The Commission required all the proposals to contain signed statements verifying that the persons directly involved in the study were not already engaged in work for or against gambling industry interests and would not become so during the contract period, which lasted from January 1 to October 2, 1998.
4. William R. Eadington, *The Spread of Casinos and Their Role in Tourism Development*, unpublished manuscript received August 21, 1998, forthcoming in **Contemporary Issues in Tourism Development**, edited by Douglas G. Pearce and Richard W. Butler, London and New York: Routledge.
5. William R. Eadington, *Contributions of Casino-Style Gambling to Local Economies*, **The Annals of the American Academy of Political and Social Science, Special Issue - Gambling: Socioeconomic Impacts & Public Policy**, James Fray, editor, Volume 556, March 1998, p. 59.
6. Examples include: Robert Goodman, *Legalized Gambling as a Strategy for Economic Development*, Northampton, Mass.: **United States Gambling Study**, March 1994; Rachel Volberg, *Gambling and Problem Gambling in Iowa: A Replication Survey*, Report to the Iowa Department of Human Services, 1995; H.R. Lesieur, *Compulsive Gambling*, **Society**, 1992; Office of Planning and Budgeting, Executive Office of the Governor, **Casinos in Florida: An Analysis of the Economic and Social Impacts**, 1995.
7. Dr. Phil Brooks, presentation to the Gambling Study Commission, February 24, 1998.
8. For example, Florida analysts employed the U.S. Department of Commerce, Bureau of Economic Analysis regional input-output modeling system (RIMS II) to calculate the economic impacts of casinos, but their study was undertaken in advance of proposed legalization of casinos. Interestingly, the Florida study concluded that the state had more to lose than gain from casino gambling, largely on the basis of comparing projected gambling tax revenues to social costs as well as a determination that market saturation would prevent the successful export of the gambling product and gambling problems to other areas. See citation at endnote #6.
9. In June 1998, a research team from the University of Nevada-Reno was awarded a \$250,000 grant from the National Institute of Justice to examine the impact of casino gambling on crime and the quality of life in U.S. jurisdictions where the industry is relatively new. For more information, contact Carmen Jeschke at (702) 784-1580.
10. According to a study provided to the Commission by Hunter Interests, Inc., data showing that lower-income people spend a higher percentage of their income on gambling is mainly from studies on the impact of lotteries. See

C.T. Clutfelder and P.J. Cook, **Selling Hope: State Lotteries in America**, Cambridge, Massachusetts: Harvard University Press, 1989.

11. American Psychiatric Association, **Diagnostic and Statistical Manual of Mental Disorders**, Fourth Edition, Washington, D.C.: American Psychiatric Association, 1992, p. 617.

12. Private communication dated September 16, 1998. Volberg cites H.J. Shaffer, M.N. Hall, and J. Vanderbilt, **Estimating the Prevalence of Disordered Gambling Behavior in the United States and Canada: A Meta-analysis**, Boston: Harvard Medical School Division on Addictions, 1997.

13. Bob Anez, *Gambling Revenues on Record-Setting Pace*, Helena **Independent Record**, June 11, 1998.

14. An article entitled *Chancey Revenues* by Stanley Nicholson and Marlene Nesary in the Winter 1995 issue of **Montana Business Quarterly** goes further with available data than this study did in discussing the economic implications of a highly concentrated industry. The authors did acknowledge, however, that their analysis lacked the benefit of information concerning the in-state business expenditures of gambling establishments. Neither the MBQ article nor the current study contain information on the number of employees or the amount of expenditures of route operators.

15. Robert Goodman, **op. cit.**, and Earl Grinols, *Bluff or Winning Hand? Riverboat Gambling and Regional Employment and Unemployment*, **Illinois Business Review**, Spring 1994, pp. 8-9.

16. William Eadington is particularly helpful in understanding the economics of legalized gambling, as is evidenced by the following passage: “Wealth is also created by the legislative process in the form of economic rents when stakeholders are given claims on future income flows that will accrue to purveyors of a newly introduced commodity. With gambling, this process can be significant as long as the activity is accorded some form of supply-constrained, privileged status. Privileged status is an inevitable byproduct of moving from prohibition to controlled legalization. Constraints on supply are usually implemented because policy makers and the general public remain skeptical about the potential costs of creating an unconstrained or laissez-faire marketplace for gambling products, or are themselves directly interested in capturing or allocating the economic rents. As a result, the political process for changing the legal status of gambling is often dominated by rent seeking behavior of stakeholders, manifested in lobbying efforts or referenda, rather than by a ground swell from consumer groups pushing for legalization to satisfy their demands or improve their access to preferred forms of gambling.” Eadington, **op. cit.** (1998), p. 56.

17. Alec Hansen, quoted in an article by Kathleen McLaughlin entitled *Economic Cocaine: Local governments addicted to video gaming revenues*, published in the Helena **Independent Record**, July 16, 1995.

18. The U.S. Congress established the National Gambling Impact Study Commission in 1996 to conduct a comprehensive legal and factual study of the social and economic impacts of gambling on federal, state, local, and tribal governments and on communities and social institutions. None of the Commission’s findings are scheduled for publication and dissemination until 1999. For updates and other information, telephone the NGISC at (202) 523-8217 or visit the website at <http://ngisc.gov>

19. *State Policy Reports*, Volume 16, Issue 13, 1998, p. 7.

20. *State Policy Reports*, Volume 16, Issue 7, 1998, p. 6.

21. Thompson quoted in **Casinos in Florida: An Analysis of the Economic and Social Impacts**, Tallahassee: Governor’s Office of Planning and Budgeting, 1995, p. 79.

22. Roger Dunstan, **Gambling in California**, California Research Bureau, California State Library, January 1997, p. IX-2. Dunstan's remark recalls an often-quoted statement from a 1970 textbook, **Economics**, by Nobel Laureate Paul Samuelson: "[Gambling] involves simply sterile transfers of money or goods between individuals, creating no new money or goods. Although it creates no output, gambling does nevertheless absorb time and resources. When pursued beyond the limits of recreation, where the main purpose after all is to 'kill' time, gambling subtracts from the national income." (p. 402) Samuelson probably did not enjoy hiking or playing baseball--or going to Las Vegas.
23. Eadington, **op. cit.** (1998), p. 62.
24. William Eadington, **op. cit.** (1998), p. 63.
25. A 1994 article by Phillip Longman entitled *The Tax Mirage* in the **Florida Trend** cites research demonstrating that any increase in casino taxes beyond 20% has been shown to decrease demand and resulting revenue, and that jurisdictions that tax video lottery terminals at 30% do not collect more revenue than those with a 15% rate.
26. See LaFleur's Lottery World feature article (2/98), found at <http://www.lafleurs.com>.
27. See Arturo Perez, *Earmarking State Lottery Profits*, **NCSL Legisbrief 3**, No. 25, June/July 1995.
28. Individuals with a predisposition to compulsive behavior are thought to be especially susceptible to continuous, rapid-cycle forms of electronic stimuli, such as video gambling machines. See Rachel Volberg and Eric Silver, **Gambling and Problem Gambling in North Dakota**, Report to the North Dakota Department of Human Services Division of Mental Health, 1993. Also, the June 1998 issue of **CNS Spectrums** (Volume 3, No. 6) contains a number of research articles on the biological and genetic determinants of pathological gambling.